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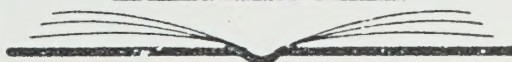
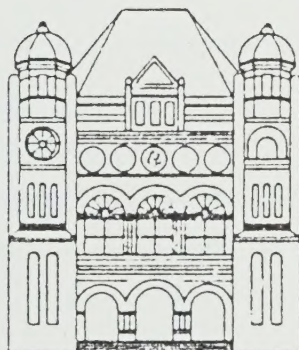
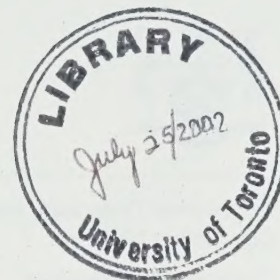
**RELATIONSHIP BETWEEN THE  
MINIMUM WAGE & UNEMPLOYMENT &  
POVERTY.**

**Current Issue Paper #128**









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**CURRENT ISSUE PAPER #128**

**THE RELATIONSHIP BETWEEN  
THE MINIMUM WAGE  
AND UNEMPLOYMENT AND POVERTY**

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March 1992

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## THE ISSUE

The question of whether a legislated minimum wage is desirable and if so, how generous it should be continues to generate controversy. The effect of the minimum wage on unemployment is a favourite topic among economists: an American economist has recently written that "An introductory textbook without a discussion of minimum wage laws might not be like a day without sunshine, but would certainly rank with a morning without caffeine".<sup>1</sup> Anti-poverty activists campaign for increases in the minimum wage on the grounds that it will alleviate poverty. Despite this attention, the debate on the minimum wage is often carried on with little or no reference to empirical research on how the minimum wage actually does affect the labour market.

## INTRODUCTION

This paper begins with a description of the origins, development and current operation of Ontario's minimum wage law. It then discusses the question of how the minimum wage affects unemployment. This is the aspect of the subject which has received the most attention from economists, who tend to hypothesize that increases in the minimum wage will lead to increased unemployment. The empirical literature on this point is sufficiently large and sophisticated that it sheds some light on this argument. Finally, the paper examines the possible impact increases in the minimum wage might have on reducing poverty. This topic has received much attention in recent years from researchers who point out that minimum wage rates in Ontario and elsewhere have failed to keep up with the cost of living.

## HISTORY OF THE LEGISLATION IN ONTARIO

At the close of World War One, industrial unrest, related to the failure of wages to keep up with the high cost of living, was spreading across Canada. In response, the federal government established a Royal Commission on Industrial Relations, which recommended in 1919 that the provinces enact minimum wage laws covering women, girls and unskilled labourers. A National Industrial Conference attended by representatives of the federal and provincial government, employers and employees was convened in Ottawa to consider the Commission's report, and it made the same recommendation.<sup>2</sup>

It was against this background that the provinces began to introduce minimum wage legislation. Ontario was the fifth province to enact a minimum wage law, in 1920.<sup>3</sup>

Ontario's minimum wage law was directed at the phenomenon known as "sweating," the rank exploitation of vulnerable workers by unscrupulous



employers. The eradication of this social ill was the original objective of minimum wage legislation enacted throughout the industrial world. In the early 1920s in Ontario, it was thought that female employees were especially in need of governmental protection because they were non-unionized, likely to be too afraid of losing their jobs to complain to their employers about their treatment, and were seen to be temperamentally disinclined to protest in any case. Thus, the general purpose of the *Minimum Wage Act*<sup>4</sup> was to protect the physical, moral and intellectual well-being of female workers by ensuring that they were paid a "living wage."

A Minimum Wage Board was established to set and enforce rates of pay below which female workers could not be employed. The Board set the rates based on calculations about the amount of money an independent single woman needed to maintain a minimum, decent standard of living.

A recent study of the Minimum Wage Board argues that it was ineffective, largely because it declined to enforce the Act aggressively and sought to avoid confrontations with recalcitrant employers.<sup>5</sup>

When the *Minimum Wage Act* was introduced, the government offered another rationale for the elimination of "sweating." The "sweated" plant was often highly inefficient, where the employer tried to compensate for short production lines, excessive overhead and bad management by suppressing wage costs. Such firms tended to induce downward pressure on wages throughout their industry, thereby decreasing the buying power of workers, which was fundamental to economic growth. The increase in costs brought about by minimum wage legislation would compel such firms to become more efficient.<sup>6</sup>

In 1937, the *Minimum Wage Act* was repealed. Under a new statute of the same name,<sup>7</sup> the Board was replaced with an Industry and Labour Board with jurisdiction over male as well as female employees, a move prompted by the



downward pressure on wages caused by the Great Depression. The government recognized that male employees were just as vulnerable when employers sought to suppress wages in order to survive during tough economic times.<sup>8</sup> The Board was empowered to fix minimum wage rates for any business or trade it decided should be covered. For the purposes of administering the Act, the Board grouped the working population into different classifications depending on gender, age, and industry. A different minimum wage was set for each classification.<sup>9</sup>

This legislation also proved to be ineffective, largely because it was not adequately enforced, and was substantially amended in 1963. The Industry and Labour Board was abolished and replaced with a Labour Standards Branch in the Ministry of Labour. The Branch was empowered to fix minimum wage rates on a hourly basis. By 1965, the Branch had established a minimum hourly rate of \$1.00 for most categories of employees throughout the province, and higher rates for construction workers.<sup>10</sup>

Finally, in 1968 a new *Employment Standards Act*<sup>11</sup> was introduced, which continues to provide the statutory basis for the Government of Ontario's minimum wage program. This Act consolidated a number of different statutes dealing with working conditions, changed the name of the Labour Standards Branch to the Employment Standards Branch, and set out a basic framework for employees' and employers' rights and obligations in the workplace.

Under s. 59(2) of the Act, the Minister of Labour appoints a Director of the Employment Standards Branch, who is responsible for ensuring compliance with the minimum wage levels set out in the regulations issued by the Lieutenant Governor in Council (the Cabinet) under the authority of the Act. The Director supervises employment standards officers who enforce the Act. They are empowered to enter business premises without a warrant to examine a firm's books, and inspect any document deemed necessary for determining whether the employer is in compliance with the Act (s. 63). Where an employment standards

officer discovers that an employee is owed wages from an employer who has failed to pay the prescribed minimum wage, he or she can collect the money from the employer on behalf of the employee, or issue an order directing the employer to pay the sum owing to the Director in Trust for the employee (s. 65). An employer who disagrees with any order of an employment standards officer may apply to the Director for a review of the order by means of a hearing (s. 68). The Director will appoint a referee to hold the hearing (s. 68(3)).

The following table provides details on the activities of the Employment Standards Branch in enforcing compliance with the *Employment Standards Act* for the last two fiscal years for which complete information was available.

TABLE ONE

<i>Period</i>	<i>Number of Collections for Minimum Wage Infractions</i>
1989-90	191
1988-89	222
<i>Period</i>	<i>Number of Employees Receiving Monies as a result of Collections</i>
1989-90	687
1988-89	394
<i>Period</i>	<i>Amounts Collected</i>
1989-90	\$89,900
1988-89	\$52,600

Source: Annual Reports of the Ministry of Labour.

The regulations exempt persons engaged in certain employment from the minimum wage provisions of the Act.<sup>12</sup> They are: qualified practitioners of professions such as architecture, dentistry, medicine, and the law; registered drugless practitioners; teachers, as defined in the *Teaching Professions Act*;<sup>13</sup> commercial



fishermen; domestic servants; certain classes of salesmen who are remunerated in whole or in part by commission in respect of sales normally made outside of their employer's place of business; persons employed in certain agricultural pursuits; students employed in recreational programs, camps or supervisory activities pertaining to children; superintendents, janitors and caretakers of residential buildings who reside therein; and trainees in courses leading to qualification as a registered nursing assistant, laboratory technician or radiology technician.

According to the Minister of Labour, Mr. Bob Mackenzie, there are currently 162,000 workers earning the minimum wage or slightly more in Ontario. This constitutes 4.1 % of the workforce.<sup>14</sup>

On June 27, 1991 Mr. Mackenzie announced revisions to the minimum wage rates. The current rates and the increases announced by the Minister are shown in the following table.<sup>15</sup>

TABLE TWO

<i>Type of Employment</i>	<i>Rate Effective October 1, 1990</i>	<i>Rate Effective November 1, 1991</i>
General minimum, hourly	\$5.40	\$6.00
Employee who serves liquor directly to customers or patrons on licensed premises	\$4.90	\$5.50
Student rate, hourly (under 18 years of age), where weekly hours are not in excess of 28 hours or where student is employed during a school holiday*	\$4.55	\$5.55
Services of hunting or fishing guides:		
a) for less than 5 consecutive hours in a day	\$27.00	\$30.00
b) for 5 or more hours in a day	\$54.00	\$60.00

- \* these rates do not apply to students employed in recreational programs, camps or supervisory activities pertaining to children.

Wages include any monetary remuneration payable to an employee under a contract of employment, but do not include tips, gifts and bonuses paid at the discretion of the employer, and travelling expenses or allowances.



The following table provides an overview of general minimum wage rates around the country.

**TABLE THREE**  
**GENERAL MINIMUM HOURLY WAGE RATES**  
**Employees 18 years of age and over**

	<i>Rate</i>	<i>Effective Date</i>
Federal * ***	\$4.00	May 26, 1986
Alberta	4.50	September 1, 1988 **
British Columbia	5.00	April 1, 1990
Manitoba***	5.00	March 1, 1991
New Brunswick ***	5.00	October 1, 1991
Newfoundland ****	4.75	April 1, 1991
Nova Scotia	5.00	January 1, 1992
Ontario	6.00	November 1, 1991
Prince Edward Island	4.75	April 1, 1991
Quebec***	5.55	October 1, 1991
Saskatchewan***	5.00	July 1, 1990
Northwest Territories****	6.50	April 1, 1991
Yukon Territory ***	6.24	April 1, 1991

- Applies to employees 17 years and over.
- Scheduled to rise to \$5.00 on April 1, 1992
- No special rates established with respect to age.
- Applies to employees 16 years and over.

Table Four shows the current rates in those provinces which have legislated a separate minimum wage for young people.



**TABLE FOUR**  
**GENERAL MINIMUM HOURLY WAGE RATES**  
**Employees under 18 years of age**

	<i>Rate</i>	<i>Effective Date</i>
Alberta *	\$4.00	September 1, 1988
British Columbia	4.50	April 1, 1990
Newfoundland	minimum wage does not apply to employees under 16	
Nova Scotia	4.55	January 1, 1992
Ontario	5.55	November 1, 1991
Prince Edward Island	4.35	April 1, 1991
Northwest Territories **	6.00	April 1, 1991

\* The rate is scheduled to rise to \$4.50 an hour on April 1, 1992.

\*\* Applicable to employees under 16 years of age. \$6.00 rate is for those who live along the N.W.T. Highway System. Minimum wage is \$6.50 for employees elsewhere in the N.W.T.

### CONTEMPORARY RATIONALES FOR THE MINIMUM WAGE

As noted above, the original rationale for the introduction of a minimum wage in Ontario was to prevent the exploitation or "sweating" of workers. Though "sweating" in its grossest forms is a thing of the past, the continued existence of minimum wage legislation is testimony to the reality that certain classes of employees remain particularly vulnerable. According to the annual reports of the Ministry of Labour, the law is primarily aimed today at non-unionized employees who are likely to lack the collective bargaining power needed to ensure they are paid fairly.<sup>16</sup>



The noted American economist Arthur Okun has offered the following re-statement of the original rationale for the minimum wage laws. Minimum wage laws, like child labour or work safety laws, can be seen as prohibitions on exchanges born of desperation. A minimum wage law in effect declares that anyone who accepts an absurdly underpaid job must be acting under economic duress. The resulting desperation may be caused by ignorance, immobility or genuine lack of alternatives, but it should be kept out of the workplace. Minimum wage laws impose restrictions on one's freedom to contract for employment in order to protect individuals from the harshest effects of power in the labour market.<sup>17</sup>

In the decades since the minimum wage was introduced in Ontario, supporters of the policy have argued that it serves, or could be made to serve if the rate was high enough, as a tool in alleviating poverty. The case for this argument is discussed below.

Finally, in 1980 the Economic Council of Canada argued that many governments should set their minimum wage rates at levels which provided individuals with an incentive to work, instead of relying on social security benefits such as unemployment insurance or welfare.<sup>18</sup> Therefore, a latter-day, if tacit, purpose of minimum wage laws was to provide work incentives. However, as we shall see, most economists argue that the minimum wage increases, rather than decreases unemployment.

### THE CASE AGAINST THE MINIMUM WAGE

Traditional economic theory postulates that a government-mandated minimum wage will result in lay-offs among employees in the covered industries whose wage rates were originally below the new minimum wage. It is predicted that employers will discharge such employees for two reasons.



First, firms compelled to raise the wages of low-paid (and likely low-productivity) labour, relative to the price of other inputs, will attempt to find substitutes. This usually involves the more extensive use of machinery and equipment. It may also require the greater use of relatively more productive labour which can command a wage above minimum.

Second, while a firm facing higher costs because of the introduction of a minimum wage (or an increase in its rate) for its employees will initially absorb those costs by taking lower profits, it will eventually pass them on to the consumer in the form of higher prices, which will lead in time to reduced sales and production. This reduction in the scale of the operation will lead to a reduction in employment. The firms which do employ low-wage labour are typically small and operate in highly competitive industries: in these firms, increases in labour costs tend to have substantial negative effects on employment, sometimes even forcing firms out of business. Moreover, labour costs in such firms usually amount to a significant proportion of total costs, which makes their impact on employment all the more sensitive.<sup>19</sup> Briefly summarized, this is the conventional wisdom among economists. It rests on the assumption "that labour is no exception to the general rule that less is demanded at a higher price than at a lower price."<sup>20</sup> However, empirical research in North America in the 1980s suggests that the situation is more complex.

## EMPIRICAL RESEARCH ON THE MINIMUM WAGE

### Difficulties of Research

Any review of the empirical literature on the minimum wage must be prefaced with the cautionary observation that there are serious obstacles to accurate studies of the unemployment effects it may cause. Economists' claims that a minimum wage policy is undesirable must be considered with these in mind.

It is difficult to get statistical data for the specific workers directly affected by the minimum wage. Such workers are often only a small fraction of the total work force. Even where a substantial proportion of the directly affected workers may have lost their jobs as a result of a legislated minimum wage increase, this effect can be lost statistically in the random fluctuations in employment of the much larger number of workers whose wages were always above the minimum.

Economists try to circumvent this problem by selecting for study some age group known to receive low wages, so that a relatively high percentage of the people in this category are earning low enough wages to be directly affected by minimum wage legislation. Teenagers are an obvious choice in North America, and this is one of the reasons why the research on the minimum wage often focuses on this group.

The prediction commonly made that an increase in the minimum wage will lead to a decrease in employment and/or the hours employees work assumes employers' demands for labour are sensitive to wage changes: this is known as the "elasticity of labour demand." This elasticity must be measured before we can draw any conclusions about the disemployment impact of the minimum wage; it cannot be predicted by economic theory. While economists have developed sophisticated methods for estimating elasticity which control for variables affecting labour demand other than wages, measuring elasticity is both difficult and subject to calculation errors. A 1983 study by the U.S. General Accounting Office concluded that imprecise elasticity estimates were one of the reasons for the continuing lack of consensus on the effects of minimum wage legislation.<sup>21</sup>

The extent to which a minimum wage is effectively enforced will not only affect its impact in the economy, but also our capacity to measure that impact. If violations of the law go undetected, any predictions about its impact will be flawed. A 1984 study conducted at the University of Ottawa surveyed the American literature and concluded that employer noncompliance was a serious



problem which researchers had neglected, thereby calling into question any generalizations in the literature about the disemployment effect of the minimum wage.<sup>22</sup>

With these provisos in mind, we can turn to a review of the empirical research on the minimum wage.

### The Literature

There is a large empirical literature on the impact of minimum wage rates in the United States. Three substantial reviews surveyed this research in the 1980s.

- In a 1982 study for the (US) National Bureau of Economic Research three economists reviewed the research published to date, including the comprehensive Report of the Minimum Wage Study Commission (1981). They concluded that the literature predicted that a 10% increase in the U.S. federal minimum wage would result in an increase in unemployment among teenagers of one percent to three percent. The historical evidence on the impact of an increase in the minimum wage on the employment of young adults (i.e., adults between the ages of twenty to twenty-four) was conflicting and inconclusive. Similarly, the studies of particular industries yielded no clear-cut conclusions. Studies of successive extensions of the national minimum wage in the U.S. under the *Fair Labour Standards Act* since it was enacted in 1938 did not indicate any definitive impact on the unemployment rate.<sup>23</sup>
- A 1983 report by the U.S. General Accounting Office for the Senate Committee on Labour arrived at the same conclusion regarding the minimum wage and teenage employment. This report also decided that research on other groups identified by age, gender or race was inconclusive.<sup>24</sup>
- Finally, the Congressional Budget Office released a report on the literature in March, 1989 in conjunction with the Congressional debate on proposed increases in the minimum wage. This report endorsed the earlier studies, and added that recent research indicated that increases in the minimum wage would have a smaller impact on the unemployment rate than was the case in the 1960s and 1970s.<sup>25</sup>

The Canadian research dates from the early 1980s, and is based on data collected in the 1970s. All of the studies found that increases in the minimum wage did cause some unemployment.

- A 1980 study found that increases in the provincial minimum wage rates and an expansion in their coverage in the years between 1956 and 1975 caused increases in unemployment among 14 to 19 year olds across the country. In the time period reviewed, teenage female employment had been reduced by 7.1% and teenage male employment by 11.4%. In Ontario, however, unemployment among male teenagers had been countered by an outflow of drop-outs from the labour force, with the result that the teenage male unemployment rate tended to fall.<sup>26</sup>
- A 1982 study based on the literature produced in the 1970s calculated that in the years 1970 to 1978, a 10% increase in the relative minimum wage across the country raised the unemployment rate by between 0.2% to 0.5%.<sup>27</sup>
- A 1983 study which used data from 1975 to 1979 concluded that the minimum wage caused unemployment not only among teenagers, but also among young female adults.<sup>28</sup>

In June 1991 the Institute for Policy Analysis at the University of Toronto released a study on the impact of the minimum wage in Ontario on the unemployment rate.<sup>29</sup> This study has attracted attention because it attempts to estimate the impact of the NDP Government's Throne Speech promise to raise the minimum wage to 60% of the average industrial wage during its term in office.<sup>30</sup> The authors of this study selected women and the young (defined as employees between the ages of 15 and 24) as the groups most likely to be affected by an increase in the minimum wage, because they are the employees who are most likely to hold low-skilled jobs which pay the minimum wage. They attempt to estimate how these employees would be affected by an increase in the minimum wage of the dimensions proposed by the Government of Ontario. The study concludes that such an increase would result in the loss of 43,000 jobs of women and 18,000 jobs of young people.<sup>31</sup>



It is important to point out, however, that this study is not based on empirical research. The authors employ a mathematical model to reach a hypothetical conclusion about the possible impact of a proposed increase in the minimum wage on selected target groups who may or not be actually earning the minimum wage in Ontario. Moreover, the authors assume that the proposed increase will be introduced all at once, and not in stages.

To sum up, the literature produced in the 1980s in both Canada and the U.S. indicates that increases in the minimum wage did have some adverse impact on teenage employment. Although the American data is inconclusive, some Canadian research also suggests an impact on the adult labour force. It is important to point out, however, that the Canadian literature is based on data collected in the 1970s. Moreover, only one Canadian study focused specifically on provincial labour markets, Ontario included (this was the 1980 study reviewed above). There has not been a comprehensive empirical study by age, group, industry and region in North America since the Report of the U.S. Minimum Wage Study Commission in 1981.

## THE MINIMUM WAGE AND POVERTY

If increases in the minimum wage clearly caused unemployment, the minimum wage would not be an effective tool to reduce poverty. However, in the absence of a definitive link between the minimum wage to unemployment, many anti-poverty activists argue that increases in the minimum wage would be one way to fight poverty.

This school of thought points out that anyone working at the minimum wage rates currently in force anywhere in Canada (with or without dependents) will be living below official poverty lines. This has been documented in a number of recent studies. The principal reason for this is that minimum wage rates have not been adjusted to keep pace with inflation. A 1990 study prepared for the Canadian

Advisory Council on the Status of Women pointed out that since 1975 the real minimum wage (i.e., adjusted for inflation) has fallen by more than 20% in Ontario and six other provinces, and over 30% in the rest.<sup>32</sup> The Minister of Labour has estimated that between 1975 and 1990, the Consumer Price Index for Ontario rose by 179%, but the provincial minimum wage rose by only 125%.<sup>33</sup>

Minimum wages rates have also failed to keep pace with the average earnings of workers in Canada. A recent survey by the Canadian Council on Social Development calculated the average minimum wage for a full-time, year-round worker expressed as a percentage of the average wage, from 1965 to 1991. In 1965, average minimum wage earnings were \$1,657, or 37.9% of the \$4,373 average earnings. By 1976, average minimum wage earnings (\$5,627) reached 51.5% of the average earnings of \$10,436. But since 1976 minimum wage rates have fallen steadily to the point where, in 1991, average minimum wage earnings generated \$10,436, or just 37.1% of average earnings (\$28,158), which is lower than the percentage for 1965.<sup>34</sup>

The impact of this decline in real minimum wage rates has been documented in the report entitled *Children in Poverty: Toward a Better Future* (1991), released by the Senate Standing Committee on Social Affairs, Science and Technology. This study was based on research submitted to the Committee by the Canadian Council on Social Development, provincial Social Planning Councils, and the Committee's own staff. According to the Committee's analysis, in 1975 a fully employed minimum wage worker who supported a spouse and a child in a large city (defined as having 500,000 or more residents) could earn 81% of the poverty line as defined by Statistics Canada. In 1990, this worker could earn only 42.4% of the poverty line income. Even if both spouses were fully employed at the minimum wage, they could earn only 84.8% of the poverty line income.<sup>35</sup>

The Committee devised the following table to demonstrate the formidable monetary gaps between the minimum wage and the poverty line across the country



for a single parent with one child. The modest increases in the minimum wage rates in some jurisdictions since the Table was formulated in 1990 (see Table Three above) have not nullified the essential pattern revealed by the Table, which is the inadequacy of minimum wage rates in Canada in relation to poverty lines.<sup>36</sup>

TABLE FIVE

A Comparison of Minimum Wage Income to the Poverty Line Income  
for One Parent With One Child, 1990

Jurisdiction	Minimum wage	Annual minimum wage income	Poverty line	Income as % of poverty line
Federal	4.00	7,904	19,200	41.2
Newfoundland	4.25	8,398	16,900	49.7
P.E.I.	4.50	8,892	15,000	59.3
Nova Scotia	4.50	8,892	16,900	52.6
New Brunswick	4.50	8,892	16,900	52.6
Quebec	5.00	9,880	19,200	51.5
Ontario	5.00	9,880	19,200	51.5
Manitoba	4.70	9,287	19,200	48.4
Saskatchewan	4.75	9,386	16,900	55.5
Alberta	4.50	8,892	19,200	46.3
British Columbia	5.00	9,880	19,200	51.5

Note: Minimum wages are those prevailing on April 1, 1990. Minimum wage income is based on a 38 hour work week, and 52 weeks of work. The poverty line is the estimated Statistics Canada low income cut-off for each province's largest city.

However, before we can safely conclude that increasing the minimum wage would alleviate poverty, we need to be sure that those workers who receive the minimum wage in fact belong to the ranks of the working poor. For example, American researchers point out that many recipients of the minimum wage in that country



are teenagers working part-time, who belong to families with means above the poverty line.<sup>37</sup> Obviously, in this context the minimum wage cannot be depicted as a poverty fighting tool.

There is no comprehensive analytical study available on who actually works at the minimum wage in Ontario. However, the provincial Ministry of Labour has compiled some useful statistics, using 1988 and 1989 data collected by Statistics Canada.<sup>38</sup> As noted above, approximately 162,000 workers work at the minimum wage in Ontario (this figure is based on the 1989 data). The Ministry has calculated that in 1989 over 36,000 minimum wage workers were the head of a household. According to the 1988 data (the last year for which data about family earnings is available) 30% of minimum wage workers were in families with total earnings of less than \$15,000 a year. We can safely assume that the workers falling in these categories (which are not mutually exclusive) are living below the poverty line. Therefore, an increase in the minimum wage would reduce poverty for these thousands of Ontarians.

The Ministry has also calculated that approximately 51% of minimum wage workers were over the age of 25 (as of September 1989). If we assume that a sizeable percentage of these are supporting themselves on their wages, and not living at home and dependent on parents or dependent on a spouse, then we can safely conclude, regardless of whether they are single or supporting others, that a significant proportion of this 51% of all minimum wage workers are living below the poverty line. This suggests that significant numbers of minimum wage workers would benefit from an increase in the minimum wage, insofar as it would raise their incomes closer to the poverty line. However, such an effect could be counterbalanced by any increase in unemployment associated with the higher minimum wage.

The data does not indicate how many of the under-25 year olds are living at home and supported by parents, are living on their own, or are heads of households.



We know that if they fall into either of the latter two categories they are not earning enough to stay above the poverty line. Again, an increase in the minimum wage would raise such workers' incomes closer to the poverty line; as long as the increase did not increase unemployment among such workers.

## CONCLUSION

The lesson to be drawn from this review of the literature on the effect of the minimum wage is, quite simply, that it does not allow us to safely make generalizations. The empirical literature on the relationship between the minimum wage and unemployment does suggest some negative impact, but it is not extensive and suffers from methodological problems. While we lack a complete portrait of the labour force population which actually earns the minimum wage, the available empirical evidence seems to indicate that increases in the minimum wage is one way to fight poverty.

## FOOTNOTES

<sup>1</sup> Charles Brown, "Minimum Wage Laws: Are They Overrated?" *Journal of Economic Perspectives* 2:3 (1988): 134.

<sup>2</sup> This paragraph draws on Frank Whittingham, *Minimum Wages in Ontario: Analysis and Measurement Problems* (Kingston, Ontario: Industrial Relations Centre, Queen's University, 1970), pp. 3-8.

<sup>3</sup> Ontario's predecessors were: Manitoba (in 1918), British Columbia (1918), Saskatchewan (1919), and Quebec (1919).

<sup>4</sup> *Minimum Wage Act*, S.O. 1920, c. 87.

<sup>5</sup> Margaret E. McCallum, "Keeping Women in Their Place: The Minimum Wage in Canada, 1910-1925," *Labour/Le Travail* 17:1 (1986): 29.

<sup>6</sup> See McCallum, p. 41; and Minimum Wage Board, *Annual Report for 1923* (Toronto: The Board, 1923), p. 3.

<sup>7</sup> *Minimum Wage Act*, S.O. 1937, c. 43.

<sup>8</sup> See McCallum, pp. 41-42, and Ontario, Minimum Wage Board, *Annual Report for 1923*, pp. 22-23.

<sup>9</sup> See Ontario, Department of Labour, *Annual Report for 1937* (Toronto: King's Printer, 1938), p. 37 ff.

<sup>10</sup> Ontario, Department of Labour, *Annual Report for 1967-68* (Toronto: Queen's Printer, 1969), p. 9.

<sup>11</sup> *Employment Standards Act*, S.O. 1968, c. 35. The Act is now cited as R.S.O. 1990, c. E.14.

<sup>12</sup> The relevant regulations are O.Reg. 284/80 and O.Reg. 285/80.

<sup>13</sup> *Teachings Professions Act*, R.S.O. 1990, c. T.2.

<sup>14</sup> See Ontario, Legislative Assembly, *Hansard: Official Record of Debates* (35th Parliament, 1st Session), 27 June 1991: 2390.

<sup>15</sup> Under the terms of the *Employment Standards Act*, the Minister sets the maximum rates which employers can deduct from their employees' wages when they provide meals or housing as a term of employment. (Farm workers often work under such conditions). Traditionally, these rates have been linked to the minimum wage scale, and published together. The current schedule for these rates have been omitted from Table Two.



- <sup>16</sup> See e.g., Ontario, Ministry of Labour, *Annual Report 1989-90* (Toronto: Ministry of Labour, 1991), p. 45.
- <sup>17</sup> Arthur Okun, *Equality and Efficiency: The Big Trade-Off* (Washington, D.C.: The Brookings Institution, 1975), pp. 20-21.
- <sup>18</sup> Canada, Economic Council of Canada, *Minimum Wages: The New Issues in Theory, Evidence, Policy and Politics* (Ottawa: Economic Council, 1980), p. 7.
- <sup>19</sup> These paragraphs draw on Canada, Royal Commission on the Economic Union and Development Prospect for Canada, *Report -- Volume Two* (Ottawa: Supply and Services, 1985), pp. 619-620. Critics of the minimum wage often allege that minimum wage increases have a "ripple effect" in that workers employed at wage rates above the minimum wage will demand wage hikes to maintain the differential between their wage rates and the minimum wage rate. See, e.g., Geoffrey Scotton, "NDP wage plan blasted," *Toronto Sun*, 18 June 1991. However, a review of the literature reveals published empirical studies on the "ripple effect". For an American article which argues there is a demonstrable "ripple effect" see Ronald Krumm and Li-Wei Chao, "The Ripple Effect of the Proposed Minimum Wage Increase," *Government Union Review* 10:1 (1989): 27.
- <sup>20</sup> Thomas Sowell, *Minimum Wage Escalation* (Stanford, CA: Hoover Institution Press, 1977), p. 6.
- <sup>21</sup> United States, General Accounting Office, *Minimum Wage Policy Questions Persist Report*, Report to the Committee on Labour and Human Resources, United States Senate (Washington, D.C., January 1983), p. 16.
- <sup>22</sup> David E. Brown and Gilles Grenier, *Models of Firms' Behaviour under Minimum Wage Legislation*, Research Paper #8409 (Ottawa: Department of Economics, University of Ottawa, 1984).
- <sup>23</sup> Charles Brown, Curtis Gilroy and Andrew Kohen, *The Effect of the Minimum Wage on Employment and Unemployment: A Survey*, Working Paper No. 846 (Cambridge, MA: National Bureau of Economic Research, 1982).
- <sup>24</sup> United States General Accounting Office, *Minimum Wage Policy Question Persist Report*.
- <sup>25</sup> United States, Congress, Congressional Budget Office, "Details of CBO's Estimate of the Economic Impact of H.R. 2" (Washington, D.C.: The Office, March, 1989).
- <sup>26</sup> Robert Swidinsky, "Minimum wages and teenage unemployment," *Canadian Journal of Economics* 13:1 (1980): 158.
- <sup>27</sup> Pierre Fortin and Keith Newton, "Labour Market Tightness and Wage Inflation in

Canada," in *Workers, Jobs, and Inflation*, Martin Neil Baily, ed. (Washington, D.C.: The Brookings Institution, 1982), p. 253.

<sup>28</sup> Joseph Schaafsma and William D. Walsh, "Employment and labour supply effects of the minimum wage: some pooled time-series estimates from Canadian provincial data," *Canadian Journal of Economics* 16:1 (1983): 86.

<sup>29</sup> Jean-Michel Cousineau, David Tessier, and François Vaillancourt, *The Impact of the Ontario Minimum Wage on the Unemployment of Women and the Young: A Note* (Toronto: Institute for Policy Analysis, University of Toronto, June 1991).

<sup>30</sup> Ontario Legislative Assembly, *Hansard: Official Record of Debates*, 35th Parliament, 1st Session (20 November 1990): 2101.

<sup>31</sup> Jean-Michel Cousineau et al., *The Impact of the Ontario Minimum Wage*, p. 6.

<sup>32</sup> Morley Gunderson, Len Muszynski and Jennifer Keck, *Women and Labour Market Poverty* (Ottawa: Canadian Advisory Council on the Status of Women, June 1990), p. 114.

<sup>33</sup> See Ontario, Legislative Assembly, *Hansard: Official Record of Debates*, 35th Parliament, 1st Session (27 June 1991): 2390.

<sup>34</sup> Melanie Hess, "Sinful Wages," *Perception* 15:3 (1991) 29: 32. Ms Hess is Director of Programs at the Canadian Council on Social Development.

<sup>35</sup> Canada, Parliament, Senate, Standing Senate Committee on Social Affairs, Science and Technology, *Children in Poverty: Toward A Better Future* 34th Parliament, 2nd Session tabled, 30 January 1991, pp. 19-20, 55-56.

<sup>36</sup> *Ibid.*, p. 20.

<sup>37</sup> See Marvin H. Kosters, "Jobs and the Minimum Wage: *The Effects of Changes in the Level and Pattern of Coverage* (Washington, D.C.: American Enterprise Institute for Public Policy Research, April 1989).

<sup>38</sup> These statistics are drawn from the background material (Backgrounder No. 91-07) released by the Ministry of Labour in conjunction with the Minister of Labour's statement in the Legislature on 27 June 1991. A report based on the Ministry's data can be found in "160,000 Ontario workers make minimum wage", *Ottawa Citizen*, 31 August 1991.









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